

BOWLES'S NEW AND ACCURATE MAP OF THE WORLD, OR TERRESTRIAL GLOBE, laid down from the BEST OBSERVATIONS and NEWEST DISCOVERIES; particularly those of the late Captain JAMES COOK, and other celebrated CIRCUMNAVIGATORS: Illustrated with a variety of useful PROJECTIONS and REPRESENTATIONS of the HEAVENLY BODIES: the most approved ASTRONOMICAL and GEOGRAPHICAL DEFINITIONS, TABLES, and PROBLEMS. With an easy and familiar Explanation of the most curious and interesting PHENOMENA in the UNIVERSAL SYSTEM. Printed by J. Bowles, at the Golden Age, in Pall Mall.



# Amidst The Chaos, a Small Force for Stability: Somalia's Business Community

ROBERT L. FELDMAN  
LTC, USAR

*This is an Accepted Manuscript of an article published by Taylor & Francis in Small Wars and Insurgencies in May 2012, available online: <http://www.tandfonline.com/DOI.10.1080/09592318.2012.642201>.*

**FOREIGN MILITARY STUDIES OFFICE**

---

Open Source, Foreign Perspective, Underconsidered/Understudied Topics

---



**The Foreign Military Studies Office (FMSO)** at Fort Leavenworth, Kansas, is an open source research organization of the U.S. Army. It was founded in 1986 as an innovative program that brought together military specialists and civilian academics to focus on military and security topics derived from unclassified, foreign media. Today FMSO maintains this research tradition of special insight and highly collaborative work by conducting unclassified research on foreign perspectives of defense and security issues that are understudied or unconsidered.

**Previous Publication:** This paper was originally published by Taylor & Francis in *Small Wars and Insurgencies*, May 2012, available online: <http://www.tandfonline.com/> DOI 10.1080/09592318.2012.642201. It is being posted on the Foreign Military Studies Office website with permission from the publisher.

FMSO has provided some editing, format, and graphics to this paper to conform to organizational standards. Academic conventions, source referencing, and citation style are those of the author.

The views expressed are those of the author and do not represent the official policy or position of the Department of the Army, Department of Defense, or the U.S. government.

# **Amidst The Chaos, a Small Force for Stability: Somalia's Business Community**

*By Robert L. Feldman, LTC, USAR*  
May 2012

## **Introduction**

Prior to the most recent upheaval in Somalia a significant portion of the business community – shopkeepers, owners of large telecom companies, farmers, exporters of agricultural products, and many others - were beginning to exert considerable pressure towards normalization. Transaction impairing roadblocks were coming down, telecom capabilities were increasing, and the beginnings of an atmosphere where new stores could successfully be opened were just three signs that the business community could exert some leverage in the country. There was even speculation that radical Islamists acted in order to prevent businesses from making further gains that would stabilize the country and possibly bring it under western influence. The Somalia business community, like much of the rest of the country, has been hit hard during the recent surge in violence associated with the latest attempt to establish a government. However, it was not a fatal blow, and the businesses that survived, along with an indelible entrepreneurial spirit among the Somali population, means the potential exists for a reenergized business community to once again exert at least a small amount of influence in the direction of stability, helping to lessen the anarchy so prevalent in much of the country. Such an outcome would be beneficial to U.S. interests as

**a more stable Somalia is less likely to harbor anti-American terrorists, threaten neighboring African countries, or allow piracy to continue in nearby shipping lanes.**

**There should be no unrealistic expectations. As evidenced by the innumerable failed attempts of the past, it will be no easy task for Somalia to achieve a modicum of normalcy. Moreover, even if the business community gains strength it is doubtful that this alone could accomplish such a Herculean undertaking. However, in conjunction with other favorable actions, such as negotiations among some of the warring parties, there might just be an outside chance for an environment conducive to peace.**

**Should the Transitional Federal Government (TFG) provide proper incentives for businesses, or at least remove the disincentives it has imposed, it is possible that the TFG might find allies beyond the small section of Mogadishu it presently controls. Though much of the country has been in a perpetual state of disrepair, news involving income generating opportunities, legal or illicit, spreads quickly.**

**There are signs that the business community in the years to come could once again be a force for peace. Take the Trans-National Industrial Electricity and Gas Company, created by a consortium of five Somali companies, which plans to invest \$1 billion in electric and gas infrastructure over the next five years. In the process they will create 100,000 new jobs, meaning 100,000 people who have a stake in maintaining a stable country.<sup>1</sup> Numerous other opportunities exist besides the energy sector, and many people are taking advantage of them.**

However, when discussing business opportunities, economic statistics, and other such factors one must bear in mind that to a large extent Somalia is an amalgam of several different areas carved out by clans and former colonial powers. These include the relatively stable northwestern section known as Somaliland; the semi-autonomous northeastern Puntland that includes a large portion of the coast from which pirates operate; and much of the southern portion of the country, including the historic capital of Mogadishu, where chaos reigns. Somaliland corresponds to former British Somaliland while Puntland and the southern region correspond to what was once Italian Somaliland. With such a geographic medley it's important to define which region is under discussion, so for the purposes of this article, when discussing chaotic regions it does not include Somaliland. When discussing numbers such as the gross domestic product, GDP, it does include Somaliland, though such numbers should be viewed with at least a slightly suspicious eye as accurate economic data, especially across so many diverse regions, including some of which are not safe to travel, can be difficult to come by.

If the numbers are believable, or at least reasonable approximations, then somewhere among the flood of bad news coming from Somalia there is at least a trickle of good. Even with the ongoing conflict Somalia's GDP growth rate for 2009 was significantly higher than that of the United States. Such economic growth could possibly help Somalia find its own way out of the morass it has been in for so long.

There are a few actions the United States can take to encourage economic development in Somalia. Unfortunately there are probably even more ways for America to hinder it, and

if not careful with their policies could implement efforts counterproductive to the pursuit of peace.

### **Historical Background**

A detailed history of Somalia, though fascinating, is beyond the scope of this paper. Briefly, after British Somaliland and Italian Somaliland gained independence they united in 1960 to form the Somali Republic, though despite nationhood clan warfare continued. A coup by Mohamed Siad Barre in 1969, and his subsequent imposition of authoritarian socialist rule, resulted in some semblance of stability.<sup>2</sup> However, Barre's crackdown on dissidents eventually led to his being overthrown in 1991. An attempt to form a new government failed and parts of the country spiraled into chaos, though Somaliland, British Somaliland's successor, declared independence and is now a relatively peaceful area albeit its sovereignty remains unrecognized by any other nation.

The mid 1990's saw a slow but steady rise in the indicators of progress, reaching a point where they were above the pre-stateless level and reflecting to a large extent the business community's ability to better provide for the people when unhampered by a corrupt and inefficient government.<sup>3</sup> During this time relative peace also ensued as Sharia-based courts, often with the backing of local businessmen, acted to reduce crime. Eventually these courts would further fill the void created by the absence of government by offering education and health services.

When a group of the Sharia-based courts came together the Islamic Courts Union, ICU, was born. Originally comprised of both moderate and radical elements, the moderates would later leave. Warlords also came together to form a united front, this in response to the ICU which threatened their lucrative criminal enterprises. However, the ICU was able to wrest much of the country, including Mogadishu, from them.

In turn the Transitional Federal Government with backing from Ethiopian forces drove the ICU out of Mogadishu. The TFG, formed in 2004 with support by the international community, is the fourteenth attempt at creating a functioning government in Somalia. Ongoing fighting between the TFG and Islamist fighters has reduced but not eliminated economic development in Somalia. Indeed the CIA estimates a GDP real growth rate of 2.6% in 2009, with agriculture the largest sector, accounting for over 50% of export earnings.<sup>4</sup>

#### **Counterproductive Moves by the TFG**

The TFG has not only failed to be pro-business, it has actually demonstrated to the Somali people why government can be a problem as opposed to a solution. The most glaring example of this is corruption where TFG collected revenues are diverted to a few individuals. Thus, businesses are taxed but instead of seeing the proceeds go to infrastructure improvements or some other investment that will benefit the country, they see their money being misappropriated. As Somalis have said, better to have no government at all than one which steals revenue and provides no services.

**There are numerous other examples of how the TFG is handicapping businesses. These include:**

- A lack of a unified system for issuing documents related to revenue collection or expenditure payment, confusing the business class and making it difficult for them to fulfill government requirements even if they want to do so. <sup>5</sup>**
- Multiple and independent currency printing presses which essentially flood the market with Somali Shillings. As an example, a press is reportedly present at the compound of the President of the TFG, a press that has no links to the Central Bank. Other presses are reportedly operated by private businessmen.**
- Frequently weapons destined for the police are sold by government officials to insurgents who use them to shake the business community down for money. These weapons also fuel the violence that scares away potential investors.**

**By creating a violent atmosphere, a near useless currency, and other investment disincentives the TFG undermines its own legitimacy. People wonder why rules that are harmful to their livelihoods and only serve to enrich corrupt government officials are imposed upon them. They did not vote for the TFG to come into Mogadishu; they were not even asked. The TFG had promised accountability and transparency, and there were some moves in that direction, but they have been offset by mismanagement and corruption.**

#### **Possible Ways to Support Business Development in Somalia**

**Perhaps the overriding rule of providing support to Somalia should be based on the medical axiom, “First, do no harm.” This, however, may be a difficult task, as well-**



**intentioned funds and activities can be diverted to nefarious undertakings. However, by carefully targeting funds to businesspeople and projects that benefit the business community it might be possible to minimize the amount that is diverted to the coffers of corrupt government officials and others who would misuse the moneys.**

**Determining ahead of time what percentage of money being diverted from its intended use is an acceptable cost is probably a prudent step to take before actually implementing a project. However to insist on full accountability of moneys and insist that none go astray would doom any project before it was even launched.**

**With the full realization that some funds will most likely be misappropriated, and after completing a cost benefit analysis that realistically incorporates the risks of such a diversion of dollars, there are potentially measures that if implemented might benefit the business class. These include:**

- Training business owners to increase their profitability and perhaps expand their businesses. Courses in such areas as marketing, management, and basic accounting, if done within the context of Somali culture, could be quite beneficial. Potentially these courses could be taught in-country by hiring Somalis who have the requisite expertise. Alternatively or perhaps as an additional method to provide the material, the courses could be offered in Somali in a distance format via the internet. This method has several advantages over providing in-country teachers including: safety (no teacher to be threatened or killed), asynchronous learning (businesspeople can access the lessons at any time), and positive public relations for the United States (should the US wish to advertise its involvement) as courses can be clearly labeled as being provided by the Americans.**

- **Providing incentives to invest in Somaliland as success there might possibly spread to other regions.**
- **Re-evaluating the state department travel advisory for all of Somalia. Perhaps an exception can be made for travel to Somaliland.**
- **Encouraging and, if possible, facilitating investment in Somalia by the large Somali community present in the United States. As these individuals often still have family and friends in Somalia with whom they regularly communicate, they are in a good position to know where there are possible economic opportunities.**
- **Pressuring the TFG to reform its policies in order to remove counterproductive economic measures. Following that they should be encouraged to take the next step, actually creating a pro-business climate.**
- **Funding some of the NGO's still present in Somalia that are involved in projects such as microenterprise development.**
- **Providing technical support from a distance in areas such as weather forecasting, benefitting farmers who would have a better idea of when to plant and harvest. Soil analysis, where a sample is brought outside the country and the results are broadcast via radio is another example where American expertise could assist the agricultural sector.**
- **Working with European and Asian companies and governments which may already be involved in Somali airline maintenance, food processing and other activities to see how Somali services could be enhanced and the market for Somali products broadened.**

None of the previous measures need involve large sums of money. Indeed, large sums would probably be counterproductive as they would create an extremely inviting target for corrupt individuals. Additionally, some actions, such as reevaluating the State Department travel warnings to all of Somalia, should involve little to no allocation of funds.

Interestingly, there could also be significant opportunities for American firms. Perhaps some sales could go to U.S. companies from the Somali consortium investing heavily in gas and electric infrastructure. Prospects also exist in agriculture, manufacturing, and construction. This could be a win-win situation for the Somalis and American companies.

### **Economic Strength in Anarchy**

For many years Somalia had a relatively strong economy, frequently beating out many other African countries in regards to gross domestic product as well as imports and exports.<sup>6</sup> This occurred despite Somalia's lack of a central government, or maybe because of it. A look at the Somali telecom sector helps illustrate this point.

- With no taxes to pay, Somali companies compete with a reduced overhead compared to companies from other nations. This is one reason for a long time Somali international phone rates were the cheapest on the continent.<sup>7</sup>
- With no expensive environmental, labor, or other regulations to follow, Somali telecom companies are further able to undercut the rates of other nations.
- Ironically, in a nation where many are angry at western ways, business is essentially pure capitalism. There is no government offering preferential treatment to one company over the other, resulting in the marketplace making

the decisions as to which company survives and which dies, which will be able to expand and which must contract.

- Innovation is not hampered by courts deciding patent rights, anti-monopoly statutes, or other legal issues. Telecom companies are free to experiment without concern that success will result in accusations of having achieved an unfair advantage.
- Telecom companies are not owned by the government or staffed by government cronies. As a result, whereas it can take months if not years for a landline to be installed in a neighboring African country, often requiring significant bribes to be paid along the way, in Somalia the process can be completed in a matter of days. Additionally, there is no government pressure on the telecom companies to be less competitive with a parastatal corporation.

Taking advantage of these opportunities is a Somali population with a commercial history going back many generations. Somalis are known for their resourcefulness, often filling the void created by the absence of government. In Mogadishu they provide electric services with generators, transport water with donkeys, and can even deliver a letter.<sup>8</sup> They have opened hospitals, factories, and a university.<sup>9</sup>

It would be remiss to discuss Somali business acumen without mentioning piracy. Though some may look at these people as no more than a disorganized group of thugs such an assessment would be far from the truth. Using venture capital to finance their operations, often sending it using satellite telecommunications in conjunction with an ancient method of money transfer known as hawala, and with foreign contacts who can tell

them when certain ships are leaving different ports, they have reaped millions of dollars from companies paying ransoms.<sup>10,11</sup> Piracy is a business enterprise and a very profitable one at that. Should enough pressure from the TFG and international community be eventually applied to eliminate piracy, there is a reasonable chance the former pirates will redirect their entrepreneurial skills to other enterprises, maybe even legal ones if businesses in the region are prospering.

### **Economic Weakness in Anarchy**

To be sure, there are also economic disadvantages to not having a central government in Somalia. These include:

- **Additional costs for security.** As an example, Abdi Muhammad Sabria, who owns a pasta factory, pays \$3,000 a month for security guards, essentially hired gunmen, to protect his business.<sup>12</sup>
- **An absence of tax revenue to invest in transport facilities, education, and other essential items which enhance long term business development.** As an example, because there is not a secure port, Mr. Sabria, the previously mentioned owner of the pasta factory, has sustained losses of up to 10% of his imported supplies on the beach.<sup>13</sup>
- **An inability to protect the currency as evidenced by wide-scale counterfeiting.**
- **Incredible environmental destruction.** The “problem of the commons” has resulted in marked deforestation as trees are harvested for charcoal production. Much of the charcoal is destined to Persian Gulf State countries where laws restrict its

production. Such laws, however, do not prevent them from taking advantage of lawless Somalia.<sup>14</sup> With no replanting programs to ensure sustainability, this valuable and finite Somali resource will eventually no longer exist, replaced by a barren landscape.

- Difficulties in attracting foreign investment, though there are still individuals willing to invest.

Recognizing these hindrances to potentially improved profits, many in the business community would likely be supportive of a government that, while not perfect, could on balance establish enough stability to allow them to safely expand businesses already in existence as well as create new ones. Such a business environment could help a tenuous peace become more stable, a feeble government become stronger.

### **Tourism**

There are numerous sectors that could potentially benefit from stability as well as assistance and/or investment. Many of these, such as agriculture and telecom, already have significant earnings, and efforts directed to these areas would most likely fuel their expansion, leading to further employment. It might even be realistic to think of someday building upon a business which previously flourished in large areas of Somalia...tourism. One might scoff that tourism in Somalia will probably be limited to battle hardened mercenaries looking to relive their glory days amidst small arms fire and incoming mortar rounds, but the truth is there are parts of Somalia that are relatively peaceful and tourist friendly. To begin with there is Somaliland in the northeast which has modern hotel



facilities catering to a nascent but growing tourism industry. Among the notable attractions worth visiting there are the neolithic cave paintings at La'as Gaal, just outside of the Somaliland capital, Hargeisa. Incredibly well preserved despite the years of turmoil in the region, these have been described as the most beautiful in all of Africa.

To be sure, generating significant tourism in the rest of Somalia will not occur until some semblance of peace and security is established, no easy task given the current state of affairs. Presently the phrase “tourism in Somalia” reads more like a punchline to a bad joke than a feasible plan to earn hard currency. Still, should a semblance of peace and security occur, tourism would most likely quickly prosper. With a large Diaspora, many Somalis would probably anxiously visit their homeland and relatives. Additionally, Somalia has a rich heritage for those tourists from Europe and elsewhere fascinated by different cultures, and stunningly beautiful beaches ripe for development to accommodate those tourists interested more in sun and surf than ancient sites.

Interestingly, there are still people visiting Somalia, including Mogadishu, despite the dangers, though this already small number appears to have fallen even farther following the recent round of turmoil. While many of these individuals appear to be native-born Somalis visiting or conducting business, adventurers, aid workers and journalists also occasionally make the trek. Hotels which meet basic western standards for comfort, and claim to be safe, continue to operate, though getting to/from them does not appear to be a journey for the faint of heart. On February 9, 2005, the same day she arrived in Mogadishu, 39 year old Kate Peyton, a BBC reporter, was gunned down in front of the Sahafi Hotel.<sup>15</sup> Still, should peace arise, these relatively small facilities, such as the 60 bed Sahafi or 28 room Hotel Naso-Hablod, might quickly expand.<sup>16,17</sup>

Until peace is established throughout Somalia there is little the U.S. government can or should do to promote tourism in places such as Mogadishu. However, the State Department may want to consider removing its travel warning from Somaliland. This could lead to additional visitors to that relatively safe region, leading to the creation of additional tourist facilities. People in other areas of Somalia might take note how peace leads to prosperity, and perhaps apply some pressure to their own leaders to create an environment suitable for investment.

### **Conclusion**

It is difficult to say if peace is a prerequisite for prosperity or if prosperity is a prerequisite for peace. The former seems to be the standard thought, for even the common expression “peace and prosperity” puts tranquility of the nation ahead of wealth. Maybe, though, prosperity could be a path to peace, especially if there was a relatively equitable distribution of money. If a small amount of revenue is generated, a small amount of peace might follow as people realize it will help generate even more income. This could lead to an ongoing cycle of prosperity and peace. In other words, maybe the international focus for Somalia should be on building businesses first and peace second and not the other way around, for if businesses take root, peace might follow.

As evidenced by past activities of Somali businesses, this approach seems justified. Prior to the most recent turmoil Somali businesspeople were ratcheting up the pressure for peace, whether with selfless intentions or just as a way to enable their stores, farms, and other businesses to prosper. Be it taking down roadblocks comprised of armed clansmen that impede the flow of goods or creating jobs weaving rugs that prevent idle young hands

from finding more nefarious activities to occupy them, the Somali business community was a significant factor in creating peaceful conditions in the past. Given the opportunity once again, they would surely push for expanding commerce and the peace that permits it to occur.

Despite the success of some businesses the lack of a government hinders their ability to grow. Without taxes and regulations roads can't be repaired, forests can't be protected, and foreign investment will remain negligible at best. Though business owners would prefer a small government that provides basic services with minimal taxation and regulation, the country might require a much larger one in order to deal with the enormous problems left by two decades of war. Whatever form a government does take, and whether it is imposed by other nations or is the result of a homegrown effort, it would be most useful to include the voices of businesspeople when shaping it.

An unfortunate obstacle to an effective Somali government appears to be the present one. Increasingly people are questioning U.S. support for the TFG. Corrupt, ineffective, and with a limited chance in its present form to succeed, the TFG at times seems to serve more as a distraction to the peace process than an integral part of it.<sup>18</sup>

A recent report by the Council of Foreign Relations suggests an approach of "constructive disengagement" by the U.S.<sup>19</sup> A key component of this would be allowing the Somalis to work out their problems. Though it is unclear if such an attempt to remove most foreign interference would actually result in some sort of government in the future, it is possible that in such an environment the business community, freed from the TFG's

**counterproductive actions and policies, and in conjunction with certain other elements of society, might be able to exert enough pressure to bring a semblance of order.**

**Attempts to bring peace, some would say force peace, onto the Somalis have repeatedly failed. Helping to encourage the businesses already in Somalia to grow, as well as planting the seeds for new ones, might lead to the peace that has eluded the country for over two decades, for amidst the present chaos, the business community is a small force for stability.**

## **Endnotes**

---

<sup>1</sup> “Somalia Business Keen to Join Forces for Peace.” Reuters Africa. 23 May 2010.

<sup>2</sup> CIA: The World Factbook: Somalia. 8 June 2010. <<https://www.cia.gov/library/publications/the-world-factbook/geos/so.html>>

<sup>3</sup> Leeson, Peter. “Better Off Stateless: Somalia Before and After the Government Collapse.” 13 Nov 2006. <[http://www.peterleeson.com/Better\\_Off\\_Stateless.pdf](http://www.peterleeson.com/Better_Off_Stateless.pdf)>

<sup>4</sup> CIA: The World Factbook: Somalia. 8 June 2010. <<https://www.cia.gov/library/publications/the-world-factbook/geos/so.html>>

<sup>5</sup> “Report of the Monitoring Group on Somalia Pursuant to Security Council Resolution 1811.” S/2008/769. United Nations. 2008.

<sup>6</sup> “Somalia Economy Stronger than Others in Africa, UN-backed Meeting Says.” UN News Service. 29 Jan 2010. <[http://www.hiiraan.com/news2/2008/Jan/somalia\\_economy\\_stronger\\_than\\_others\\_in\\_africa\\_un\\_backed\\_meeting\\_says.aspx](http://www.hiiraan.com/news2/2008/Jan/somalia_economy_stronger_than_others_in_africa_un_backed_meeting_says.aspx)>

<sup>7</sup> Feldman, Robert. “Somalia: Amidst the Rubble, a Vibrant Telecommunications Infrastructure.” *Review of African Political Economies*. No. 113 (2007): 565-572.

- 
- <sup>8</sup> Gettleman, Jeffrey. Reporting from Mogadishu. National Public Radio. 1 July 2010
- <sup>9</sup> Mogadishu University. 2009. <<http://www.mogadishuuniversity.com/english/index.php?page=Overview>>
- <sup>10</sup> Joffe-Walt, Chana. "Behind the Business Plan of Pirates Inc." National Public Radio. 30 April 2009.
- <sup>11</sup> Feldman, Robert L. "Fund Transfers – African Terrorists Blend Old and New: Hawala and Satellite Telecommunications." *Small Wars and Insurgencies* 18 no. 1 (2006): 356-366.
- <sup>12</sup> Fisher, Ian. "Business Stunted by Too-Free Enterprise Somalia." *Mogadishu Journal*. 7 Aug 2000.
- <sup>13</sup> Ibid.
- <sup>14</sup> "Somalia: Charcoal Trade on the Rise." *IRIN*. 6 November 2006.  
<<http://www.irinnews.org/report.aspx?reportid=61489>>
- <sup>15</sup> "BBC Producer Killed Outside Mogadishu Hotel." *Committee to Protect Journalists*. Feb 9, 2005.  
<<http://cpj.org/2005/02/bbc-producer-killed-outside-mogadishu-hotel.php>>
- <sup>16</sup> Hotel Naso-Hablod. <http://www.hnasah.com/about%20us.html>
- <sup>17</sup> Sahafi Hotel. [http://www.allsomali.com/Welcome\\_to\\_Sahafi\\_Hotel.htm](http://www.allsomali.com/Welcome_to_Sahafi_Hotel.htm)
- <sup>18</sup> "United States Should Pursue New Approach to Somalia, Argues CFR Report." *Council on Foreign Relations New Release*. 10 March 2010.
- <sup>19</sup> Ibid.